

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

Financial Report

06.30.2004

## Contents

---

<b>County Board of Supervisors, Hospital Board of Trustees and Hospital Officials</b>	1
---	---

---

<b>Independent Auditor's Report</b>	2 – 3
-------------------------------------	-------

---

<b>Management Discussion and Analysis</b>	4 – 10
---	--------

---

<b>Financial Statements</b>	
Statements of net assets	11 – 12
Statements of revenue, expenses, and changes in net assets	13
Statements of cash flows	14 – 15
Notes to basic financial statements	16 – 29

---

<b>Supplementary Information</b>	
Required supplementary information, budgetary comparison schedule	30
Comparative financial statistics	31 – 34
Balance sheet information:	
General fund:	
Patient receivables	35
Inventories	35
Accrued expenses	36
Restricted certificate of deposit, endowment funds	37
Revenue and expenses statement information, general fund:	
Gross patient service revenue	38
Net patient service revenue	39
Other operating revenue	39
Operating expenses	40 – 41
Nonoperating revenue and expenses from rental activities	42

---

<b>Independent Auditor's Report on Compliance and on Internal Controls Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards</b>	43 – 44
--	---------

---

Schedule of findings and questioned costs	45 – 46
Summary schedule of prior year audit findings	47
Corrective action plan	48

---

## Contents

---

<b>County Board of Supervisors, Hospital Board of Trustees and Hospital Officials</b>	1
---	---

---

<b>Independent Auditor's Report</b>	2 – 3
-------------------------------------	-------

---

<b>Management Discussion and Analysis</b>	4 – 10
---	--------

---

<b>Financial Statements</b>	
Statements of net assets	11 – 12
Statements of revenue, expenses, and changes in net assets	13
Statements of cash flows	14 – 15
Notes to financial statements	16 – 29
<b>Required supplementary information, budgetary comparison schedule</b>	30

---

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**County Board of Supervisors, Hospital Board of Trustees and  
Hospital Officials  
June 30, 2004**

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>County Board of Supervisors:</b>		
Gary See	Chairperson	December 2004
Mark Lindeen	Member	December 2006
Stan Young	Member	December 2004
<b>Hospital Board of Trustees:</b>		
Waunita Hobbie	Chairperson	December 2008
Marvin Day	Chairperson-Elect	December 2006
David Roth	Secretary/Treasurer	December 2006
Jan Towne	Member	December 2004
Richard Garrels	Member	December 2008
Kent Severson	Member	December 2004
Dennis Hainley	Member	December 2004
<b>Hospital Officials:</b>		
Robert Miller	President/Chief Executive Officer	
David Muhs	Chief Financial Officer	
Ann Corrigan, R.N.	VP of Patient Care Services	

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Trustees  
Henry County Health Center  
d/b/a Henry County Health Center  
Mt. Pleasant, Iowa

We have audited the accompanying basic financial statements of Henry County Soldiers' and Sailors' Memorial Hospital, d/b/a Henry County Health Center (Hospital), as of June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Henry County Health Center as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2004 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis on pages 4 through 10 and budgetary comparison schedule on page 30 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 31 through 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the portion on pages 33 and 34 which is marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*McGladrey & Pullen, LLP*

Burlington, Iowa  
July 26, 2004

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Trustees  
Henry County Health Center  
d/b/a Henry County Health Center  
Mt. Pleasant, Iowa

We have audited the accompanying basic financial statements of Henry County Soldiers' and Sailors' Memorial Hospital, d/b/a Henry County Health Center (Hospital), as of June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Henry County Health Center as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2004 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 through 10 and budgetary comparison schedule on page 30 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*McGladrey & Pullen, LLP*

Burlington, Iowa  
July 26, 2004



**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Management's Discussion and Analysis  
Year Ended June 30, 2004**

---

Management's discussion and analysis of Henry County Health Center's (Hospital) financial performance provides an overall review of the Hospital's activities for the fiscal years ended June 30, 2004 and 2003. The intent of this discussion is to provide an overview of the Hospital's performance for the year and should be read in conjunction with the Hospital's financial statements and notes thereto.

Henry County Health Center operated a 50-bed general acute care hospital located in Mount Pleasant, Iowa through April 30, 2004 and on May 1, 2004 was designated as a Critical Access Hospital, operating with 25 acute-care beds and 49 long-term care beds. Henry County Health Center primarily serves the citizens of Henry County.

**Financial Highlights**

The assets of the Hospital exceeded its liabilities by \$19,826,956 and \$20,539,206 as of June 30, 2004 and 2003, respectively.

The Hospital's total assets decreased by \$1,292,730 or 3% from June 30, 2003 and increased by \$120,090 or .3% from June 30, 2002.

The Hospital's total liabilities decreased by \$580,480 or 3% from June 30, 2003 and increased by \$298,942 or 1.5% from June 30, 2002.

**Overview of Financial Statements**

The audited financial statements include the following financial statements: a Statement of Net Assets, a Statement of Revenue, Expenses, and Changes in Net Assets, and a Statement of Cash Flows plus the Notes to Financial Statements.

Our financial position is measured in terms of resources (assets) we own and obligations (liabilities) we owe at a given date. This information is reported in the Statement of Net Assets, which reflects the Hospital's assets in relation to its debts to bondholders, suppliers, employees, and other creditors. The excess of our assets over our liabilities is reported as Net Assets.

Information regarding the results from operations during the year is reported in the Statement of Revenue, Expenses, and Changes in Net Assets. This statement shows how much our net assets increased or decreased during the year as a result of our operations, nonoperating activities, and other changes.

The Statement of Cash Flows discloses the flow of cash resources into and out of the Hospital during the year. It identifies all cash received during the year from operating activities, contributions and other sources, and how we applied those funds (for example, payment of expenses, repayment of debt, purchases of new property and equipment and additions and deletions to the investment accounts).

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Management's Discussion and Analysis  
Year Ended June 30, 2004**

**Condensed Statements of Revenue, Expenses, and Changes in Net Assets**

A summary version of the Statements of Revenue, Expenses, and Changes in Net Assets for the years ended June 30, 2004, 2003, and 2002 follows:

	Year Ended June 30,		
	2004	2003	2002
Net patient revenue	\$ 19,578,000	\$ 19,134,000	\$ 17,032,000
Other operating revenue	1,481,000	1,608,000	1,391,000
<b>Total operating revenue</b>	<b>21,059,000</b>	<b>20,742,000</b>	<b>18,423,000</b>
Nonoperating revenue	412,000	571,000	591,000
<b>Total revenue</b>	<b>21,471,000</b>	<b>21,313,000</b>	<b>19,014,000</b>
Expenses:			
Salaries and wages	8,975,000	8,560,000	8,058,000
Purchased services and other	9,819,000	9,039,000	8,100,000
Depreciation	2,241,000	2,174,000	2,100,000
Interest and amortization	1,081,000	1,121,000	1,220,000
<b>Total operating expenses</b>	<b>22,116,000</b>	<b>20,894,000</b>	<b>19,478,000</b>
Restricted assets transferred to HCHC Foundation	67,000	-	-
<b>Total expenses</b>	<b>22,183,000</b>	<b>20,894,000</b>	<b>19,478,000</b>
<b>Change in net assets</b>	<b>(712,000)</b>	<b>419,000</b>	<b>(464,000)</b>
Net assets:			
Beginning	20,539,000	20,120,000	20,584,000
Ending	<u>\$ 19,827,000</u>	<u>\$ 20,539,000</u>	<u>\$ 20,120,000</u>

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Management's Discussion and Analysis  
Year Ended June 30, 2004**

---

**Operations**

Year Ended June 30, 2004: Net patient revenue was up \$444,000 to \$19,578,000 in 2004 from \$19,134,000 in 2003, a 2% increase. This increase was due to an increase in outpatient volume from 102,263 visits in 2003 to 109,010 in 2004. Medicare revenue decreased from 48.8% of total patient revenue in 2003 to 48.4% of total patient revenue in 2004. This was offset by an increase in provision for doubtful accounts from \$611,000 in 2003 to \$1,025,000 in 2004.

Operating expenses for 2004 were up \$1,222,000 or 6% over 2003. Salaries and wages were up \$415,000 or 5% due to general wage increases and overtime demands. Professional fees were up \$227,000 or 15% from 2003 due mainly to increasing the emergency department coverage contract to 24 hours per day, 7 days per week.

The net result is that the loss from operations increased from \$152,000 in 2003 to \$1,058,000 in 2004.

Nonoperating income, which consists mostly of investment earnings, rental income, and contributions, was down \$159,000 or 28% from 2003. The decrease in the nonoperating income was a direct result of less than desired returns on investments.

Year Ended June 30, 2003: Net patient revenue was up \$2,102,000 to \$19,134,000 in 2003 from \$17,032,000 in 2002, a 12% increase. This increase was due to an increase in admissions of 78 or 5.5%, which resulted in an increase of inpatient days of 375 from 5,040 or 6.7%. Outpatient volume also increased from 100,008 visits to 102,263. Adjusted admissions were up 352 or 9.2% from 3,796. Medicare patient days stayed the same from 2002 to 2003 and as a percent of total revenue went from 48.6% of total patient revenue in 2002 to 48.8% of total patient revenue in 2003.

Operating expenses for 2003 were up \$1,416,000 or 7% over 2002. Salaries and wages were up \$502,000 or 6% due to general wage increase and overtime demands. Purchased services and other expense were up \$939,000 or 12% from 2002 mainly attributable to an increase in pharmacy costs.

The net result is that the loss from operations decreased from \$1,055,000 in 2002 to \$152,000 or 86% in 2003.

Nonoperating income, which consists mostly of investment earnings, rental income, and contributions, was down \$20,000 or 3% from 2002. The decrease in the nonoperating income was a direct result of less than desired returns on investments.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Management's Discussion and Analysis  
Year Ended June 30, 2004**

**Condensed Statements of Net Assets**

Condensed versions of the Statements of Net Assets as of June 30, 2004, 2003, and 2002 follows:

	June 30,		
	2004	2003	2002
<b>Assets:</b>			
Current assets	\$ 7,185,000	\$ 7,666,000	\$ 8,291,000
Assets limited as to use, noncurrent	8,591,000	7,317,000	5,171,000
Capital assets	19,364,000	21,237,000	22,944,000
Other assets	3,231,000	3,444,000	3,138,000
<b>Total assets</b>	<b>\$ 38,371,000</b>	<b>\$ 39,664,000</b>	<b>\$ 39,544,000</b>
<b>Liabilities:</b>			
Current liabilities	\$ 3,689,000	\$ 3,615,000	\$ 3,464,000
Long-term debt	14,855,000	15,510,000	15,960,000
<b>Total liabilities</b>	<b>\$ 18,544,000</b>	<b>\$ 19,125,000</b>	<b>\$ 19,424,000</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	\$ 3,854,000	\$ 5,042,000	\$ 6,349,000
Restricted:			
Endowment	6,000	73,000	72,000
Under loan agreement	2,652,000	2,282,000	1,946,000
Unrestricted	13,315,000	13,142,000	11,753,000
<b>Total net assets</b>	<b>\$ 19,827,000</b>	<b>\$ 20,539,000</b>	<b>\$ 20,120,000</b>

The Hospital's financial position remains strong, with current assets in excess of current liabilities by \$3,496,000 in 2004 and by \$4,051,000 in 2003. Also, significant investment reserves are available to service debt requirements as well as provide for future equipment and capital needs.

For 2004, long-term debt consists of revenue bonds issued in 1990, 2000 and 2002. The Hospital continues to make all annual and semi-annual debt service payments in compliance with these bond indentures. There are no current plans to issue additional debt or defease any existing debt. Please see the Notes to Financial Statements for additional information.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Management's Discussion and Analysis  
Year Ended June 30, 2004**

**Condensed Statements of Cash Flows**

Cash flows from operating activities remains strong in 2004 and all years presented, even with the losses from operations. The Hospital has no plans to issue additional bonds nor acquire any significant capital assets outside the normal course of business.

	Year Ended June 30,		
	2004	2003	2002
Cash provided by operating activities	\$ 2,239,000	\$ 3,103,000	\$ 1,424,000
Cash (used in) capital and related financing activities	(2,355,000)	(2,711,000)	(3,623,000)
Cash provided by non-capital financing activities	491,000	457,000	453,000
Cash provided by (used in) investing activities	(533,000)	(2,007,000)	2,353,000
<b>Net increase (decrease) in cash</b>	<b>(158,000)</b>	<b>(1,158,000)</b>	<b>607,000</b>
Cash and cash equivalents:			
Beginning	1,456,000	2,614,000	2,007,000
Ending	<u>\$ 1,298,000</u>	<u>\$ 1,456,000</u>	<u>\$ 2,614,000</u>

**Budgetary Highlights**

The budget was amended in April of 2004 from budgeted expenditures of \$20,535,254 to \$25,119,399 to move from a cash basis to an accrual basis. Expenditures were under budget by \$2,937,000 for the year ended June 30, 2004.

The budget was amended in April of 2003 from budgeted expenditures of \$20,134,768 to \$26,314,768 due to refinancing the 1993 Series bonds, which created an expenditure on the cash basis to pay off the bonds.

Cash revenue/receipts did not meet the amended budget projection by \$987,611 during the year ended June 30, 2004. This was mostly attributable to reclassification of bad debt expenses as a reduction of net patient revenue. Expenditures were under budget by \$2,936,844.

Cash revenue/receipts exceeded the amended budget projection by \$6,518,517 during the year ended June 30, 2003. This was mostly attributable to the proceeds received for the refinancing of the Series 1993 bonds of \$6,055,000, which were not included in the budget. Expenditures were over budget by \$841,691. This was mostly attributable to several capital expenditures that were not included in the budget.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Management's Discussion and Analysis  
Year Ended June 30, 2004**

---

**Capital Assets**

At June 30, 2004, the Hospital had \$19,364,000 invested in capital assets. This represents a 9% decrease in comparison to June 30, 2004. This is principally due to the fact that capital expenditures were \$705,000 compared to annual depreciation in 2004 totaling \$2,509,000.

At June 30, 2003 the Hospital had \$21,237,000 invested in capital assets. This represents an 8% decrease in comparison to June 30, 2002. This is principally due to the fact that capital expenditures were \$808,000 compared to annual depreciation in 2003 totaling \$2,445,000.

	June 30,		
	2004	2003	2002
Capital assets not being depreciated:			
Land	\$ 788,000	\$ 788,000	\$ 799,000
Construction in progress	-	-	32,000
Capital assets net of depreciation:			
Land improvements	307,000	386,000	463,000
Buildings	13,480,000	14,389,000	15,320,000
Fixed equipment	2,241,000	2,514,000	2,767,000
Major movable equipment	2,548,000	3,160,000	3,563,000
<b>Total capital assets, net</b>	<b>\$ 19,364,000</b>	<b>\$ 21,237,000</b>	<b>\$ 22,944,000</b>

**Long-Term Debt**

Long-term debt consists of three revenue bond issues, described in more detail in the Notes to Financial Statements. At June 30, 2004 the Hospital had \$15,510,000 in bonds outstanding, versus \$16,195,000 at June 30, 2003 and \$16,595,000 at June 30, 2002. The decrease is attributable to the bond principal payments made in 2004 and 2003. During 2003 the Hospital issued new bonds totaling \$6,055,000 to refund 1993 bonds of \$5,850,000 and lower future interest costs.

**Economic Factors**

Fiscal 2004 and 2003 provided Henry County Health Center substantial challenges due to reductions in federal reimbursement and decreased returns on investments.

Inflation continued in 2004 and 2003 with supply and equipment costs increasing at market rates and the pressure on nursing and other salary costs being driven by the shortage of supply of these health care professionals.

On May 1, 2004 the Hospital was designated a Critical Access Hospital operating with 25 beds. This critical access status should reflect a significant increase in net patient revenue in future years.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Management's Discussion and Analysis  
Year Ended June 30, 2004**

---

**Financial Information Contact**

The Hospital's financial statements are designed to provide a general overview of the Hospital's finances for all those with an interest in the Hospital's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Henry County Health Center.

Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center

Statements of Net Assets  
June 30, 2004 and 2003

<b>Assets</b>	<b>2004</b>	<b>2003</b>
Current Assets:		
Cash and cash equivalents (Note 3)	\$ 1,016,936	\$ 985,353
Assets whose use is limited or restricted (Note 3)	734,827	768,914
Patient receivables, net (Note 4)	3,569,625	3,936,395
Other receivables (Note 5)	335,899	559,055
Current portion of long-term receivable (Note 6)	90,647	12,547
Inventories	576,108	348,787
Prepaid expenses	436,790	565,851
Restricted assets:		
Property tax receivable	417,420	415,581
Other receivables	6,265	6,785
Certificate of deposit	-	66,624
<b>Total current assets</b>	<b>7,184,517</b>	<b>7,665,892</b>
Noncurrent Assets:		
Investments (Note 3)	1,199,051	1,443,064
Other long-term assets (Notes 5 and 6)	1,461,169	1,349,451
Assets whose use is limited or restricted (Note 3)	8,591,256	7,316,802
Capital assets, net (Notes 7 and 8)	19,363,896	21,236,636
Deferred financing costs	571,265	652,039
<b>Total noncurrent assets</b>	<b>31,186,637</b>	<b>31,997,992</b>
	<b>\$ 38,371,154</b>	<b>\$ 39,663,884</b>

See Notes to Basic Financial Statements.



<b>Liabilities and Net Assets</b>	<b>2004</b>	<b>2003</b>
Current Liabilities:		
Current maturities of long-term debt (Note 8)	\$ 655,000	\$ 685,000
Accounts payable (Note 5)	515,725	665,610
Accrued expenses	1,564,642	1,388,487
Contractual payables, Medicare, Medicaid and Blue Cross	536,411	460,000
Restricted liability, deferred revenue	417,420	415,581
<b>Total current liabilities</b>	<b>3,689,198</b>	<b>3,614,678</b>
Long-Term Debt, net of current maturities (Note 8)	14,855,000	15,510,000
<b>Total liabilities</b>	<b>18,544,198</b>	<b>19,124,678</b>
Commitments and Contingencies (Notes 10 and 14)		
Net Assets:		
Invested in capital assets, net of related debt	3,853,896	5,041,636
Restricted:		
Taxes receivable	6,265	6,785
Endowment	-	66,624
Under bond agreements	2,651,875	2,281,764
Unrestricted	13,314,920	13,142,397
	19,826,956	20,539,206
	<b>\$ 38,371,154</b>	<b>\$ 39,663,884</b>

Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center

Statements of Revenue, Expenses, and Changes in Net Assets  
Years Ended June 30, 2004 and 2003

	2004	2003
Operating revenue:		
Net patient service revenue (Notes 2 and 8)	\$ 19,577,079	\$ 19,133,730
Other operating revenue, other than tax revenue (Note 5)	1,050,629	1,177,707
<b>Total operating revenue other than tax aid</b>	<b>20,627,708</b>	<b>20,311,437</b>
Operating expenses:		
Nursing services	5,923,010	5,321,420
Other professional services	7,253,053	7,109,792
General services and administration	5,617,038	5,167,431
Interest and amortization	1,081,405	1,121,062
Depreciation	2,241,425	2,174,242
<b>Total operating expenses</b>	<b>22,115,931</b>	<b>20,893,947</b>
<b>Operating (loss) before county tax revenue</b>	<b>(1,488,223)</b>	<b>(582,510)</b>
County tax revenue	430,542	430,241
<b>Operating (loss)</b>	<b>(1,057,681)</b>	<b>(152,269)</b>
Nonoperating revenue:		
Investment earnings from funds whose use is limited or restricted	301,114	288,918
Net (decrease) increase in fair value of investments	(294,486)	67,279
Gain from equity investments	141,551	15,052
Other investment earnings	104,052	94,425
Unrestricted gifts	60,082	26,974
Rental activities, net	99,742	78,653
	<b>412,055</b>	<b>571,301</b>
Restricted assets transferred to HCHC Foundation	(66,624)	-
<b>Change in net assets</b>	<b>(712,250)</b>	<b>419,032</b>
Net assets:		
Beginning	20,539,206	20,120,174
Ending	<b>\$ 19,826,956</b>	<b>\$ 20,539,206</b>

See Notes to Basic Financial Statements.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Statements of Cash Flows  
Years Ended June 30, 2004 and 2003**

	2004	2003
Cash Flows from Operating Activities:		
Cash received from patients and third-party payors	\$ 21,279,272	\$ 19,765,499
Cash payments for supplies and other expenses	(11,226,015)	(9,446,737)
Cash payments for salaries and wages	(8,864,996)	(8,393,653)
Other receipts	1,050,629	1,177,707
<b>Net cash provided by operating activities</b>	<b>2,238,890</b>	<b>3,102,816</b>
Cash Flows from Capital and Related Financing Activities:		
Payment of bond issuance cost and deferred amount on refunding	-	(267,470)
Proceeds from issuance of debt	-	6,055,000
Principal payments on long-term borrowing	(685,000)	(6,455,000)
Payments of interest	(1,004,718)	(1,083,549)
Acquisition and construction of capital assets	(671,635)	(983,278)
Proceeds from sale of capital assets	6,578	23,672
<b>Net cash (used in) capital and related financing activities</b>	<b>(2,354,775)</b>	<b>(2,710,625)</b>
Cash Flows from Non-Capital Financing Activities:		
Cash received from county tax revenue	431,062	430,241
Unrestricted gifts	60,082	26,974
<b>Net cash provided by non-capital financing activities</b>	<b>491,144</b>	<b>457,215</b>
Cash Flows from Investing Activities:		
Long-term loans	(77,264)	-
Collection of long-term receivables	89,644	39,199
Other receivables	223,156	54,570
Life insurance premiums	(7,500)	(45,000)
Purchase of investment securities	(10,871,757)	(6,125,033)
Proceeds from sale and maturity of investment securities	9,345,820	3,336,661
Investment income from board-designated funds	301,114	288,918
Other investment income	105,911	104,100
Rental activities, net	357,103	339,441
<b>Net cash (used in) investing activities</b>	<b>(533,773)</b>	<b>(2,007,144)</b>
<b>(Decrease) in cash and cash equivalents</b>	<b>(158,514)</b>	<b>(1,157,738)</b>
Cash and Cash Equivalents:		
Beginning	1,456,450	2,614,188
Ending, including cash and cash equivalents in long-term investments and assets whose use is limited or restricted 2004 \$281,000; 2003 \$471,097	\$ 1,297,936	\$ 1,456,450

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Statements of Cash Flows (Continued)  
Years Ended June 30, 2004 and 2003**

	2004	2003
Reconciliation of Operating (Loss) to Net Cash		
Provided by Operating Activities:		
Operating (loss)	\$ (1,057,681)	\$ (152,269)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	2,241,425	2,174,242
Amortization	80,774	49,163
Interest expense	1,000,631	1,071,899
Loss on disposal of property and equipment	29,005	15,751
County tax revenue	(430,542)	(430,241)
Change in assets and liabilities:		
Patient receivables	366,770	107,931
Inventories	(227,321)	(107,634)
Prepaid expense	129,061	62,630
Accounts payable	(149,885)	(108,187)
Accrued expenses, other than interest	180,242	90,685
Contractual payables	76,411	328,846
<b>Net cash provided by operating activities</b>	<b>\$ 2,238,890</b>	<b>\$ 3,102,816</b>

Supplemental Information:

Noncash investing and noncapital financing activities, transfer of restricted certificate of deposit and related restricted endowment net assets to HCHC Foundation	\$ (66,624)	\$ -
Noncash capital and related financing activities, acquisition of property and equipment through trade-in allowance	33,280	-

See Notes to Basic Financial Statements.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Notes to Basic Financial Statements**

---

**Note 1. Description of Reporting Entity and Significant Accounting Policies**

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Hospital) is a 50 acute care bed and 49 long-term care bed county hospital with related health care ancillary and outpatient services. On May 1, 2004, the Hospital was declared a critical access hospital, operating with 25 acute-care beds and 49 long-term care beds. The Hospital is organized under Chapter 347 of the Code of Iowa as amended and, accordingly, receives county tax aid from Henry County, Iowa.

Financial reporting entity: Accounting principles generally accepted in the United States of America require the financial reporting entity to include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The Hospital was organized in 1919 under Chapter 347 of the Iowa Code. The Hospital is a municipal corporation governed by a Board of Trustees, which are elected by the public and have the exclusive responsibility and accountability for the decisions it makes. It has the right to sue and to be sued and has the right to buy, sell, lease or mortgage property in its own name. Based upon this criteria, the Henry County Soldiers' and Sailors' Memorial Hospital is considered a primary government and there are no agencies or entities which should be presented with the Hospital.

A summary of the Hospital's significant accounting policies follows:

Basis of accounting: The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activities, the Hospital applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as following Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

Cash and cash equivalents: For purposes of reporting cash flows, the Hospital classifies checking and savings accounts and certificates of deposit with an original maturity of three months or less as cash equivalents.

Patient receivables: Patient receivables where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Notes to Basic Financial Statements**

---

**Note 1. Description of Reporting Entity and Significant Accounting Policies (Continued)**

Patient receivables due directly from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts, by historical experience applied to an aging of accounts and by considering the patient's financial history, credit history, and current economic conditions. The Hospital does not charge interest on patient receivables. Patient receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Receivables or payables related to estimated settlements on various risk contracts that the Hospital participates in are reported as third-party payor receivables or payables.

Property tax receivable: Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Assets whose use is limited or restricted: Assets whose use is limited or restricted include assets set aside by the Board of Trustees over which the Board retains control and may at its discretion subsequently use for other purposes, and assets held by a trustee under indenture agreements.

Inventories: Inventories are stated at the lower of cost (first-in, first-out method) or market.

Investments and investment earnings: Investments in equity securities with readily determinable fair values and all debt securities are reported at fair value as determined by quoted market prices. Investment income or loss, including realized and unrealized gains and losses on investments, interest and dividends, is included in the nonoperating revenue. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held for more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in prior years and the current year. The investments in joint ventures and cooperative arrangements with other health care entities are accounted for by the equity method of accounting, under which the net income or loss of the affiliates is recognized as income or expense and distributions are treated as reductions to the investment account. The Hospital has a 25% interest in Southeastern Renal Dialysis, L.C.; a 50% interest in Superior Ambulance, L.C.; a 33% interest in Crossroads Health Partners, L.C.; a 50% interest in Southeastern Health Group, L.C.; and a 49% interest in Henry County Medical Software, L.L.C.

Capital assets: Capital assets are carried at cost including interest capitalized during construction activities. Depreciation of capital assets is computed by the straight-line method over estimated useful lives ranging from 3 to 40 years.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Notes to Basic Financial Statements**

---

**Note 1. Description of Reporting Entity and Significant Accounting Policies (Continued)**

Deferred financing costs: Deferred financing costs are amortized over the period the obligation is outstanding using the interest method.

Paid time off and short-term disability: The Hospital accrues a liability for paid time off in the year in which it is earned.

Short-term disability does not vest and, therefore, no liability has been accrued. The payment for short-term disability is based on 70% of the regular earnings of the employee and is available for up to eight weeks.

Self-insured employee health benefits: The estimated losses from self-insured claims, including incurred but unreported claims, are accrued as the losses occur.

Income taxes: Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Henry, Iowa. As such, the Hospital is exempt from paying income taxes.

Net patient service revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue is reported net of provision for bad debts.

Operating income: The Hospital distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from the primary purpose of the Hospital, which is to provide medical services to the region. Operating revenue consists of net patient services, cafeteria and special meals, Wellness Center membership, and other miscellaneous services as well as county tax revenue. Operating expenses consist of salaries and benefits, purchased services, supplies, provision for doubtful accounts, depreciation and amortization, and interest. All revenue and expenses not meeting these criteria are considered nonoperating.

Net assets: Net asset classifications are defined as follows:

*Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

*Restricted* – This component of net assets consists of constraints placed on net assets through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt," above.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Notes to Basic Financial Statements**

---

**Note 1. Description of Reporting Entity and Significant Accounting Policies (Continued)**

Charity care: The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. Based on the equivalent revenue for the services provided, charity care totaled approximately \$169,000 and \$26,000 for the years ended June 30, 2004 and 2003, respectively.

Reclassifications: Certain items on the statements of revenue, expenses, and changes in net assets for the year ended June 30, 2003 have been reclassified to be consistent with classifications adopted as of June 30, 2004. The reclassifications had no effect on the change in net assets.

**Note 2. Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors through April 30, 2004 is as follows.

Medicare – Effective May 1, 2004, the Hospital was designated as a Critical Access Hospital. This designation provides for inpatient and outpatient services to be reimbursed on a cost basis methodology. The Hospital is reimbursed at a reasonable cost methodology at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits by the third-party Medicare fiscal intermediary.

Prior to May 1, 2004, the Hospital was paid for inpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services were paid via cost reimbursement methodologies, fee schedule limitations, or cost/fee blending methodologies before August 1, 2000. After August 1, 2000, cost based and cost/fee blend reimbursed services were paid via the outpatient prospective payment system. Under this system, most outpatient services were paid at predetermined outpatient rates, subject to certain stop-loss provisions referred to by Medicare as the transitional corridor. The transitional corridor limited potential reductions in reimbursement caused by the implementation of the outpatient prospective payment system through 2003. Cost reimbursed outpatient services were paid at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Outpatient services subject to the outpatient prospective payment system were not subject to cost report settlement with several exceptions, and without regard to the transitional corridor.

The Hospital's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through June 30, 2001.



**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Notes to Basic Financial Statements**

**Note 2. Net Patient Service Revenue (Continued)**

Medicaid – Inpatient acute care services rendered under the Medicaid program are also paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services rendered to Medicaid program beneficiaries are reimbursed primarily under a prospective payment category of service. The Hospital's Medicaid cost reports have been finalized by the Medicaid fiscal intermediary through June 30, 2001.

Blue Cross – Inpatient services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates per day of hospitalization.

A summary of net patient service revenue is as follows:

	2004	2003
Gross patient service revenue	\$ 31,399,982	\$ 29,087,655
Less discounts, allowances, charity care and estimated contractual adjustments under third-party reimbursement programs	10,797,480	9,342,931
Less provision for bad debts	1,025,423	610,994
	<u>\$ 19,577,079</u>	<u>\$ 19,133,730</u>

**Note 3. Cash, Investments, and Assets Whose Use is Limited or Restricted**

State statutes authorize the Hospital to invest in notes, savings accounts, certificates of deposit, bonds, prime eligible bankers acceptances, commercial paper rated within the two highest classifications of prime, perfected repurchase agreements, or other evidence of indebtedness which are obligations of or guaranteed by the U.S. government or its agencies. The statutes also require all of the Hospital's bank deposit accounts to be protected by insurance, surety bond or collateral, and that securities pledged as collateral be held in safekeeping by the state treasurer or in a financial institution other than that furnishing the collateral.

As of June 30, 2004, the carrying amount of the Hospital's deposits was \$1,563,382 and the bank balance was \$1,516,106. All bank deposit account balances of the Hospital are fully insured or collateralized by securities held by the Hospital's agent in the Hospital's name.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Notes to Basic Financial Statements**

**Note 3. Cash, Investments, and Assets Whose Use is Limited or Restricted (Continued)**

The Hospital's investments are categorized as follows to give an indication of the level of credit assumed by the Hospital (1) insured or registered, or the securities are held by the Hospital or its agent in the Hospital's name, (2) uninsured and unregistered, with the securities held by the counterparty's trust department or agent in the Hospital's name, and (3) uninsured and unregistered with the securities held by the counterparty or its agent but not in the Hospital's name.

	Category			Fair Value
	1	2	3	
U.S. Treasury securities	\$ 6,612,262	\$ -	\$ -	\$ 6,612,262
U.S. government agencies securities	3,001,872	-	-	3,001,872
	<u>\$ 9,614,134</u>	<u>\$ -</u>	<u>\$ -</u>	<u>9,614,134</u>
Investments not subject to risk categorization, money market mutual funds				364,554
				<u>\$ 9,978,688</u>

The Hospital invests in money market funds which are SEC registered external investment pools. The fair value of the position in the external investment pool is the same as the value of the pool shares. During the years ended June 30, 2004 and 2003, the Hospital's cash and investments did not vary in level of risk from those at year-end.

Investments whose use is not limited by the Hospital as of June 30, 2004 and 2003 are as follows:

	2004	2003
U. S. government agencies securities	\$ 1,199,051	\$ 1,443,064

Payments made in connection with the Hospital's debt service are held by the trustee until disbursed to the bondholders or as a bond reserve for the protection of bondholders. The current portion of assets whose use is limited or restricted is based on the classification of liabilities to be liquidated by those assets.

Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center

Notes to Basic Financial Statements

**Note 3. Cash, Investments, and Assets Whose Use is Limited or Restricted (Continued)**

The composition of assets whose use is limited or restricted as of June 30, 2004 and 2003 is as follows:

	2004	2003
By the Board of Trustees for:		
Capital improvements:		
Money market funds	\$ 106,043	\$ 203,295
U.S. Treasury securities	5,030,350	3,994,562
U.S. government agencies securities	1,537,815	1,606,095
<b>Total assets whose use is limited</b>	<b>6,674,208</b>	<b>5,803,952</b>
Restricted under bond agreements:		
Reserve account:		
Money market funds	1,196	24,262
Certificates of deposit	630,000	630,000
U.S. Treasury securities	463,741	453,403
U.S. government agencies securities	265,006	281,013
	<b>1,359,943</b>	<b>1,388,678</b>
Sinking fund account:		
Money market funds	173,761	243,540
U.S. Treasury securities	1,118,171	649,546
	<b>1,291,932</b>	<b>893,086</b>
<b>Total restricted under bond agreements</b>	<b>2,651,875</b>	<b>2,281,764</b>
<b>Total assets whose use is limited or restricted</b>	<b>9,326,083</b>	<b>8,085,716</b>
Less assets whose use is limited or restricted that are required for current liabilities	734,827	768,914
<b>Long-term portion</b>	<b>\$ 8,591,256</b>	<b>\$ 7,316,802</b>

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Notes to Basic Financial Statements**

**Note 4. Composition of Patient Receivables**

Patient receivables as of June 30, 2004 and 2003 consist of the following:

	2004	2003
Patient accounts	\$ 5,248,625	\$ 5,855,395
Less estimated third-party contractual adjustments and unapplied interim payments	1,154,000	1,084,000
Less allowance for doubtful accounts	525,000	835,000
	<u>\$ 3,569,625</u>	<u>\$ 3,936,395</u>

The Hospital grants credit without collateral to its patients, most of who are area residents and are insured under third-party payor agreements. The approximate mix of receivables from patients and third-party payors as of June 30, 2004 and 2003 is as follows:

	2004	2003
Medicare	40%	25%
Patients	25	34
Other third-party payors	16	22
Blue Cross	14	13
Medicaid	5	6
	<u>100%</u>	<u>100%</u>

**Note 5. Related Parties**

The Hospital is affiliated with Southeastern Renal Dialysis, L.C. (Southeastern); Superior Ambulance L.C., Crossroads Health Partners, L.C.; Southeastern Health Group, L.C.; and Henry County Medical Software, L.L.C. (Software) limited liability companies.

The Hospital performs certain management and accounting functions for these affiliates which resulted in other operating income totaling \$80,567 and \$68,898 for the years ended June 30, 2004 and 2003, respectively. The Hospital also leases real estate to Southeastern under a month-to-month agreement. Rent income related to this agreement totaled \$32,150 and \$31,500 for the years ended June 30, 2004 and 2003, respectively. These transactions and cash advances to the affiliates resulted in accounts receivable totaling \$97,815 and \$246,740 as of June 30, 2004 and 2003, respectively.

Southeastern performs inpatient hemodialysis services for the Hospital which totaled \$25,000 for each of the years ended June 30, 2004 and 2003 and resulted in accounts payable to the affiliate totaling \$13,000 and \$1,750 as of June 30, 2004 and 2003, respectively.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Notes to Basic Financial Statements**

**Note 6. Other Long-Term Assets**

Other long-term assets held by the Hospital as of June 30, 2004 and 2003 are as follows:

	2004	2003
Cash surrender value of life insurance	\$ 332,500	\$ 325,000
Investments in joint ventures and cooperative arrangements with other health care entities	800,790	608,410
Physician receivables	165,107	162,789
Notes receivable	253,419	265,799
	1,551,816	1,361,998
Less current portion	90,647	12,547
	<u>\$ 1,461,169</u>	<u>\$ 1,349,451</u>

**Note 7. Capital Assets**

The composition of the capital assets and the related accumulated depreciation is as follows:

	June 30, 2003	Additions	Transfers and Disposals	June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 788,325	\$ -	\$ -	\$ 788,325
Capital assets, being depreciated:				
Land improvements	1,487,030	-	3,932	1,483,098
Buildings	22,431,750	77,700	53,579	22,455,871
Fixed equipment	7,499,114	-	127,604	7,371,510
Major movable equipment	9,804,556	627,215	802,553	9,629,218
<b>Total capital assets, being depreciated</b>	<b>41,222,450</b>	<b>704,915</b>	<b>987,668</b>	<b>40,939,697</b>
Less accumulated depreciation for:				
Land improvements	1,101,011	78,619	3,932	1,175,698
Buildings	8,043,291	984,034	51,000	8,976,325
Fixed equipment	4,984,905	273,531	127,602	5,130,834
Major movable equipment	6,644,932	1,172,608	736,271	7,081,269
<b>Total accumulated depreciation</b>	<b>20,774,139</b>	<b>2,508,792</b>	<b>918,805</b>	<b>22,364,126</b>
Total capital assets, being depreciated, net	20,448,311	(1,803,877)	68,863	18,575,571
<b>Organization capital assets, net</b>	<b>\$ 21,236,636</b>	<b>\$ (1,803,877)</b>	<b>\$ 68,863</b>	<b>\$ 19,363,896</b>

Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center

Notes to Basic Financial Statements

**Note 7. Capital Assets (Continued)**

	June 30, 2002	Additions	Transfers and Disposals	June 30, 2003
Capital assets, not being depreciated:				
Land	\$ 799,030	\$ -	\$ 10,705	\$ 788,325
Construction in progress	32,011	-	32,011	-
<b>Total capital assets, not being depreciated</b>	<b>831,041</b>	<b>-</b>	<b>42,716</b>	<b>788,325</b>
Capital assets, being depreciated:				
Land improvements	1,485,405	1,625	-	1,487,030
Buildings	22,362,644	98,707	29,601	22,431,750
Fixed equipment	7,499,114	-	-	7,499,114
Major movable equipment	9,101,699	708,075	5,218	9,804,556
<b>Total capital assets, being depreciated</b>	<b>40,448,862</b>	<b>808,407</b>	<b>34,819</b>	<b>41,222,450</b>
Less accumulated depreciation for:				
Land improvements	1,022,380	78,631	-	1,101,011
Buildings	7,042,556	1,006,835	6,100	8,043,291
Fixed equipment	4,731,966	252,939	-	4,984,905
Major movable equipment	5,538,632	1,106,300	-	6,644,932
<b>Total accumulated depreciation</b>	<b>18,335,534</b>	<b>2,444,705</b>	<b>6,100</b>	<b>20,774,139</b>
Total capital assets, being depreciated, net	22,113,328	(1,636,298)	28,719	20,448,311
<b>Organization capital assets, net</b>	<b>\$ 22,944,369</b>	<b>\$ (1,636,298)</b>	<b>\$ 71,435</b>	<b>\$ 21,236,636</b>

Depreciation expense for the years ended June 30, 2004 and 2003 includes depreciation expense on rental activities of \$267,367 and \$270,463, respectively, which is classified as nonoperating revenue.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Notes to Basic Financial Statements**

**Note 8. Long-Term Debt**

Long-term debt activity as of and for the years ended June 30, 2004 and 2003 is as follows:

	June 30, 2003	Borrowings	Payments	June 30, 2004	Due Within One Year
Series 1990B (A)	\$ 1,895,000	\$ -	\$ (300,000)	\$ 1,595,000	\$ 350,000
Series 2000 (B) (D)	8,320,000	-	(225,000)	8,095,000	135,000
Series 2002 (C) (D)	5,980,000	-	(160,000)	5,820,000	170,000
	<u>\$ 16,195,000</u>	<u>\$ -</u>	<u>\$ (685,000)</u>	<u>\$ 15,510,000</u>	<u>\$ 655,000</u>

  

	June 30, 2002	Borrowings	Payments	June 30, 2003	Due Within One Year
Series 1990B (A)	\$ 2,175,000	\$ -	\$ (280,000)	\$ 1,895,000	\$ 300,000
Series 1993 (C)	5,850,000	-	(5,850,000)	-	-
Series 2000 (B) (D)	8,570,000	-	(250,000)	8,320,000	225,000
Series 2002 (C) (D)	-	6,055,000	(75,000)	5,980,000	160,000
	<u>\$ 16,595,000</u>	<u>\$ 6,055,000</u>	<u>\$ (6,455,000)</u>	<u>\$ 16,195,000</u>	<u>\$ 685,000</u>

- (A) The Hospital issued \$4,400,000 of Hospital Revenue Capital Improvement and Refunding Notes, Series 1990. The proceeds of these bonds were used to pay for capital improvements. The Series 1990 notes bear interest at rates ranging from 8.0% to 8.1% payable semi-annually. Annual principal payments are due in amounts ranging from \$300,000 to \$445,000 through June 2008.
- (B) The Hospital issued \$9,000,000 of Hospital Revenue Capital Loan Notes in 2000. The proceeds of these bonds were used to pay a portion of the cost of constructing and equipping an addition to the Hospital facility. The Series 2000 notes bear interest at rates ranging from 5.9% to 8% payable semi-annually. Annual principal payments are due in amounts ranging from \$135,000 to \$1,545,000 through June 2019.
- (C) The Hospital issued \$6,055,000 of Hospital Revenue Capital Loan Refunding Notes, Series 2002. The proceeds of these bonds were used to achieve a current refunding of its Hospital Revenue Notes, Series 1993 and for paying bond issuance costs incurred. The net proceeds of \$6,001,999 (after paying \$169,811 in issuance costs, a premium of \$116,810) and a transfer from prior debt service funds of \$55,000 were used to pay the outstanding \$5,850,000 of the Series 1993 bonds. The Hospital refunded the 1993 Series bonds to achieve interest cost savings on the bonds. The Hospital reduced its total debt service payments over the next 14 years by approximately \$803,000 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$550,000. The Series 2002 notes bear interest at rates ranging from 3.0% to 5.25%. Annual principal payments are due in amounts ranging from \$105,000 to \$750,000 through June 2017.
- (D) The Series 2000 and 2002 bonds grant a security interest in all revenue either accrued or received in connection with operations of the Hospital. The terms of the trust indenture require the Hospital to comply with certain covenants. The covenants provide for restrictions as to financial reporting, restrictions on the sale of the health care facilities and require the Hospital to maintain a sinking fund account and to maintain a specified debt service coverage ratio.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Notes to Basic Financial Statements**

**Note 8. Long-Term Debt (Continued)**

Future annual debt service requirements for long-term debt are as follows:

	Principal	Interest	Total
Year ending June 30:			
2005	\$ 655,000	\$ 957,920	\$ 1,612,920
2006	695,000	914,696	1,609,696
2007	745,000	866,708	1,611,708
2008	800,000	816,163	1,616,163
2009	855,000	760,918	1,615,918
2010 to 2014	5,020,000	3,035,237	8,055,237
2015 to 2019	6,740,000	1,403,224	8,143,224
	<u>\$ 15,510,000</u>	<u>\$ 8,754,866</u>	<u>\$ 24,264,866</u>

**Note 9. Pension Plan**

Henry County Health Center (Hospital) contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer, defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$504,680, \$482,827, and \$452,736, respectively, equal to the required contributions for each year.



**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Notes to Basic Financial Statements**

---

**Note 10. Professional and General Liability Insurance and Risk Management**

The Hospital insures its professional and general liability on a claims-made basis through a commercial insurer. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate. The premiums for this coverage amount to \$56,802 and \$45,135 for the years ended June 30, 2004 and 2003, respectively.

The Hospital is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. These risks, except for employee health benefits, are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

**Laws and regulations:**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the Hospital is subject to similar regulatory reviews, management believes the outcome of any such regulatory review will not have a material adverse effect on the Hospital's financial position.

**Note 11. Self-Insured Employee Health Benefits**

The Hospital is self insured for employee health benefits with employees paying a portion of the claims. The Hospital has purchased a stop-loss policy, which pays any amounts over 120% of projected total claims or claims in excess of \$55,000 per claimant. Liabilities are reported as accrued expenses when it is probable that a loss has occurred.

Changes in the provision for reported and unreported claims under the plan during the years ended June 30, 2004 and 2003 are summarized as follows:

	2004	2003
Unpaid claims provision, beginning	\$ 115,562	\$ 131,091
Provision for current year reported and unreported claims	1,334,982	950,884
Claims paid and related administrative expenses	(1,283,423)	(966,413)
Unpaid claims provision, ending	<u>\$ 167,121</u>	<u>\$ 115,562</u>

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Notes to Basic Financial Statements**

---

**Note 12. Deferred Compensation Plan**

The Hospital offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all Hospital employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The plan complies with IRC Section 457(g), which requires the plan to hold its assets in trust. Under these requirements, the Hospital does not own the amounts deferred by employees and therefore the liability and corresponding investment is not reflected in the financial statements. The plan assets totaled \$1,561,545 and \$1,340,820 as of June 30, 2004 and 2003, respectively.

**Note 13. Pending Pronouncements**

GASB No. 40, *Deposit and Investment Risk Disclosures*, issued March 2003, will be effective for the Hospital beginning with its year ending June 30, 2005. This Statement establishes and modifies disclosure requirements related to investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. This Statement also establishes and modifies disclosure requirements for deposit risks.

GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, will be effective for the Hospital beginning with its year ending June 30, 2005. This Statement requires entities to report the effects of capital asset impairment in their financial statements when it occurs and requires all entities to account for insurance recoveries in the same manner.

GASB No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, will be effective for the Hospital beginning with its year ending June 30, 2007. This Statement establishes uniform financial reporting standards for other postemployment benefit plans and supercedes GASB No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*.

GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, will be effective for the Hospital beginning with its year ending June 30, 2008. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

The Hospital's management has not yet determined the effect these Statements will have on the Hospital's financial statements.

**Note 14. Commitments and Subsequent Events**

As of June 30, 2004, the Hospital has entered into a contract to remodel certain patient rooms. The project is estimated to cost approximately \$350,000 and will be completed in one year.

During July 2004, the Hospital signed a contract to purchase new software. The total expected cost to purchase and implement the software is approximately \$900,000. The Hospital anticipates that the new software will be online by November 1, 2004.

## **Supplementary Information**

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Required Supplementary Information, Budgetary Comparison Schedule  
Year Ended June 30, 2004**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The following is a comparison between reported amounts and the Hospital's budget:

	Accrual Basis	Final Published Budget	Original Published Budget
Amount to be raised by taxation	\$ 430,542	\$ 415,581	\$ 415,581
Other revenue/receipts	21,039,763	22,027,374	22,027,374
	21,470,305	22,442,955	22,442,955
Expenses/disbursements	(22,182,555)	(25,119,399)	(20,535,254)
	(712,250)	(2,676,444)	1,907,701
Balance, beginning of year	20,539,206	20,539,206	10,092,198
Balance, end of year	<u>\$ 19,826,956</u>	<u>\$ 17,862,762</u>	<u>\$ 11,999,899</u>

Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center

Comparative Financial Statistics

Income Statistics	Year Ended June 30,	
	2004	2003
Patient service revenue:		
Nursing services, acute care	\$ 3,451,300	\$ 3,390,900
Nursing services, long-term care	1,927,400	1,806,200
Surgical, anesthesia and recovery services	7,480,600	7,043,800
Diagnostic imaging services	5,497,700	4,557,600
Laboratory and blood bank	1,901,200	1,707,300
Physical, occupational and speech therapy	1,315,800	1,075,000
Respiratory therapy, cardiac rehabilitation, and electrocardiology	1,725,400	1,456,500
Pharmacy	4,678,800	5,233,600
Outreach services	52,300	-
Public health	55,200	53,300
Ambulance	911,800	824,000
Emergency	1,861,600	1,405,600
Medical and surgical supplies	540,900	533,800
	<b>31,400,000</b>	29,087,600
Contractual adjustments, other	(10,797,500)	(9,342,900)
Provision for doubtful accounts	(1,025,400)	(611,000)
<b>Net patient service revenue</b>	<b>\$ 19,577,100</b>	<b>\$ 19,133,700</b>
Operating expenses:		
Salaries	\$ 8,974,900	\$ 8,559,900
Professional fees	1,054,300	923,500
Drugs and pharmaceuticals	1,204,500	1,317,700
Medical and surgical supplies, anesthesia, oxygen, and blood replacements	1,218,700	1,080,800
Utilities and telephone	413,100	358,600
Other supplies and expenses	2,636,300	2,567,800
Payroll taxes	1,125,200	1,074,600
Data processing costs, monthly service charges, and other expenses	654,000	674,200
Insurance	122,800	99,900
Repairs, maintenance and security	264,900	233,400
Employees health and workers compensation	1,095,500	692,500
Interest and amortization	1,081,400	1,121,100
Depreciation and gain on disposal of equipment	2,270,400	2,190,000
<b>Total operating expenses</b>	<b>\$ 22,116,000</b>	<b>\$ 20,894,000</b>

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Comparative Financial Statistics**

<b>Departmental Operating Expenses</b>	Year Ended June 30,	
	<b>2004</b>	<b>2003</b>
Administrative	\$ 3,380,300	\$ 3,051,400
Food services	691,400	735,600
Environmental and laundry	583,100	588,200
Operation of plant and security	933,800	852,500
Nursing service, general hospital unit	1,845,600	1,632,400
Nursing service, long-term care unit	1,148,100	1,098,900
Central sterile supply	86,800	90,900
Health information services	366,400	353,800
Pharmacy	1,391,200	1,525,500
Surgical services	1,460,700	1,265,900
Anesthesia	860,500	876,500
Recovery services	131,700	126,200
Obstetrics	309,300	307,600
Emergency	940,700	799,500
Ambulance service	787,200	722,500
Diagnostic imaging	1,247,600	1,182,600
Laboratory	775,700	727,500
Respiratory therapy, cardiac rehabilitation, and electrocardiology	461,100	459,100
Physical, occupational, and speech therapy	631,600	569,900
Central services	282,400	279,400
Outreach services	86,500	-
Public health	362,500	337,000
Interest and amortization	1,081,400	1,121,100
Depreciation and gain on disposal of equipment	2,270,400	2,190,000
	<b>\$ 22,116,000</b>	<b>\$ 20,894,000</b>

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Comparative Financial Statistics**

	Year Ended June 30,	
	2004	2003
<b>Income Statistics, General Hospital Unit and Long-Term Care Unit</b>		
Inpatient revenue, general hospital unit	\$ 9,257,900	\$ 9,149,300
Inpatient revenue, long-term care unit	2,198,200	2,072,800
Outpatient revenue, general hospital unit	19,943,900	17,849,800
Contractual adjustments	(10,797,500)	(9,342,900)
Provision for doubtful accounts	(1,025,400)	(611,000)
Operating income (loss) before tax aid	(1,488,200)	(582,500)
County tax revenue	430,500	430,200

**Other Statistics, General Hospital Unit (Unaudited)**

Bed capacity at year-end	25	50
Patient days (excluding newborn)	5,171	5,415
Newborn days	313	302
Average daily census, including newborn at one-third	14.5	15.1
Average % of occupancy (excluding newborn)	30.9%	29.7%
Average length of stay (days) (excluding newborn)	3.8	4.0
Number of days revenue in net patient receivables (including long-term care unit) outstanding	65	74
Room rates at year-end:		
Private	\$ 565	\$ 525
Semiprivate	535	495
Nursery	355	325
Coronary care unit	1,010	990

**Other Statistics, Long-Term Care Unit (Unaudited)**

Bed capacity	49	49
Patient days	17,517	17,682
Average daily census	48.0	48.4
Average % of occupancy	97.9%	98.9%
Room rates at year-end:		
Private	119	\$111
Semiprivate	100-105	94 - 98

Year Ended June 30,		
2002	2001	2000
\$ 8,127,700	\$ 6,497,600	\$ 7,693,400
1,943,100	1,887,400	1,652,800
15,952,400	14,098,500	14,728,800
(8,498,100)	(6,291,900)	(6,444,600)
(493,000)	(739,700)	(592,700)
(1,479,900)	(1,366,600)	429,000
424,500	414,400	421,900
50	50	50
5,040	4,483	5,821
317	304	357
14.1	12.6	16.3
27.6%	24.6%	31.9%
3.9	3.9	4.3
86	98	102
\$ 450	\$ 425	\$ 425
425	400	400
305	290	290
990	810	810
49	49	49
17,577	17,449	17,376
48.2	47.8	47.6
98.3%	97.6%	97.2%
\$102 - 106	\$102 - 106	\$100 - 104
90 - 94	90 - 94	88 - 92



Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center

Balance Sheet Information

Patient Receivables	June 30,			
	2004		2003	
	Amount	Percent	Amount	Percent
Aging of patients accounts:				
0-30 days	\$ 2,521,321	48.1%	\$ 2,354,151	40.2%
31-60 days	1,052,238	20.0	592,423	10.1
61-90 days	410,762	7.8	471,016	8.0
91-180 days	601,428	11.5	756,285	12.9
181-365 days	325,731	6.2	723,800	12.4
One year to two years	232,515	4.4	644,620	11.0
Over two years	104,630	2.0	313,100	5.4
	<u>5,248,625</u>	<u>100.0%</u>	<u>5,855,395</u>	<u>100.0%</u>
Unapplied third-party payor interim payments	50,000		5,000	
Allowance for third-party payor agreements	<u>(1,204,000)</u>		<u>(1,089,000)</u>	
	4,094,625		4,771,395	
Allowance for doubtful accounts*	<u>(525,000)</u>		<u>(835,000)</u>	
	<u>\$ 3,569,625</u>		<u>\$ 3,936,395</u>	

	Year Ended June 30,	
	2004	2003
* Analysis of allowance for doubtful accounts:		
Balance, beginning of year	\$ 835,000	\$ 837,844
Additions to allowance for year	1,133,592	727,697
Recoveries of accounts previously written off	<u>(108,169)</u>	<u>(116,703)</u>
	1,860,423	1,448,838
Accounts written off during year	<u>(1,335,423)</u>	<u>(613,838)</u>
Balance, end of year	<u>\$ 525,000</u>	<u>\$ 835,000</u>

Inventories	June 30,	
	2004	2003
Storeroom	\$ 216,747	\$ 113,211
Pharmacy	204,567	143,091
Surgery	154,794	92,485
	<u>\$ 576,108</u>	<u>\$ 348,787</u>

Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center

Accrued Expenses  
June 30, 2004 and 2003

	2004	2003
Withholding taxes, insurance, and unpaid health claims	\$ 210,736	\$ 151,397
IPERS contributions	19,534	19,708
Payroll	545,563	465,359
Paid time off	620,371	590,718
Professional fees	37,100	29,640
Interest	79,827	83,914
Property taxes	50,311	45,918
Other	1,200	1,833
	<u>\$ 1,564,642</u>	<u>\$ 1,388,487</u>

Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center

Restricted Certificate of Deposit, Endowment Funds  
June 30, 2004 and 2003

	2004	2003
Principal restricted by donor:		
Income from which is unrestricted:		
Ralph F. Geeseka	\$ -	\$ 30,189
Floyd Beauchamp	-	1,000
Joseph Vantiger	-	2,368
Catherine Skipton	-	3,351
Pennebaker Estate	-	1,369
Independent Co-op Livestock Association	-	68
Ramey Estate	-	100
Beulah Methodist Church	-	4,000
Shipley Estate	-	500
Dr. W. A. Sternberg	-	145
	-	43,090
Income from which is restricted for maintenance of rooms:		
Virginia Chamber	-	1,234
McGlure-Kelly Bequest	-	8,500
Flora Geeseka Bequest	-	13,800
	-	23,534
	\$ -	\$ 66,624

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Gross Patient Service Revenue  
Years Ended June 30, 2004 and 2003**

	2004	2003
Inpatient services, general hospital unit:		
Nursing services	\$ 2,435,136	\$ 2,431,351
Nursery services	128,716	114,148
Surgical services	1,596,286	1,430,250
Delivery and labor services	361,314	331,699
Recovery services	41,335	33,702
Emergency services	229,772	237,755
Physical, occupational, and speech therapy	229,344	153,792
Medical and surgical supplies	252,245	244,638
Laboratory and blood bank	559,350	578,640
Diagnostic imaging	625,988	631,131
Respiratory therapy, cardiac rehabilitation, and electrocardiology	755,371	821,971
Pharmacy	1,570,854	1,621,811
Anesthesia and anesthetist	432,321	476,703
Ambulance service	39,895	41,680
	<u>9,257,927</u>	<u>9,149,271</u>
Outpatient services, general hospital unit:		
Nursing services	466,059	460,046
Surgical services	3,527,530	3,345,842
Delivery and labor services	48,290	39,315
Recovery services	151,365	176,399
Emergency services	1,631,849	1,167,811
Physical, occupational, and speech therapy	1,086,434	921,226
Medical and surgical supplies	273,173	274,748
Laboratory and blood bank	1,341,848	1,128,713
Diagnostic imaging	4,871,681	3,926,476
Respiratory therapy, cardiac rehabilitation, and electrocardiology	969,998	634,528
Pharmacy	2,864,507	3,359,534
Anesthesia and anesthetist	1,731,821	1,580,928
Ambulance service	871,864	782,355
Outreach services	52,295	-
Public health	55,191	53,265
	<u>19,943,905</u>	<u>17,851,186</u>
Inpatient services, long-term care unit:		
Room charges	1,927,359	1,806,190
Medical and surgical supplies	27,351	28,782
Pharmacy	243,440	252,226
	<u>2,198,150</u>	<u>2,087,198</u>
	<u>\$ 31,399,982</u>	<u>\$ 29,087,655</u>

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Years Ended June 30, 2004 and 2003**

<b>Net Patient Service Revenue</b>	<b>2004</b>	<b>2003</b>
Gross patient service revenue	<b>\$ 31,399,982</b>	<b>\$ 29,087,655</b>
Less:		
Third-party contractual allowances:		
Medicare program	<b>8,120,582</b>	7,720,683
Medicaid program	<b>913,021</b>	440,617
Blue Cross program	<b>1,207,130</b>	793,328
Charitable care	<b>169,235</b>	25,684
Small balances and administrative write-offs	<b>20,093</b>	20,918
Other	<b>367,419</b>	341,701
	<b>10,797,480</b>	9,342,931
Provision for doubtful accounts	<b>1,025,423</b>	610,994
	<b>\$ 19,577,079</b>	<b>\$ 19,133,730</b>

<b>Other Operating Revenue</b>	<b>2004</b>	<b>2003</b>
Public health grants	<b>\$ 353,208</b>	<b>\$ 354,249</b>
Rental income	<b>39,239</b>	109,287
Reference lab	<b>55,825</b>	68,398
Income from endowment funds for operating expenditures	<b>2,998</b>	2,010
Professional services to others	<b>199,934</b>	172,687
Management services, physician billings	<b>116,527</b>	171,500
Miscellaneous, net	<b>282,898</b>	299,576
	<b>\$ 1,050,629</b>	<b>\$ 1,177,707</b>

Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center

Operating Expenses  
Years Ended June 30, 2004 and 2003

	2004		2003	
	Salaries and Wages	Supplies and Other Expense	Salaries and Wages	Supplies and Other Expense
Nursing services:				
Administrative nursing	\$ 270,341	\$ 106,752	\$ 247,449	\$ 67,411
Medical and surgical	1,147,990	297,140	944,491	345,389
Critical care unit	11,577	11,848	19,778	7,843
Long-term care unit	876,700	271,449	835,712	263,226
Obstetrics	242,274	67,067	240,716	66,916
Surgical services	386,816	1,073,865	367,251	898,692
Recovery services	102,464	29,226	101,524	24,646
Central sterile supply	41,805	44,991	45,354	45,551
Emergency services	287,358	653,347	287,143	512,328
	<b>3,367,325</b>	<b>2,555,685</b>	<b>3,089,418</b>	<b>2,232,002</b>
Other professional services:				
Diagnostic imaging	302,099	945,580	301,693	880,946
Laboratory and blood bank	272,480	503,293	262,440	465,028
Pharmacy	269,919	1,121,358	269,506	1,256,031
Anesthesia	651,607	208,964	663,266	213,263
Respiratory therapy, cardiac rehabilitation and electrocardiology	294,841	166,305	282,940	176,111
Physical therapy	201,215	430,355	229,839	340,024
Outreach services	31,283	55,174	-	41,679
Public health	239,306	123,196	234,752	102,195
Health information services	212,847	153,590	214,974	138,858
Central services	84,950	197,430	81,022	198,336
Ambulance service	557,976	229,285	521,632	200,905
	<b>3,118,523</b>	<b>4,134,530</b>	<b>3,062,064</b>	<b>4,013,376</b>
<b>Subtotals forward</b>	<b>\$ 6,485,848</b>	<b>\$ 6,690,215</b>	<b>\$ 6,151,482</b>	<b>\$ 6,245,378</b>

Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center

Operating Expenses (Continued)  
Years Ended June 30, 2004 and 2003

	2004		2003	
	Salaries and Wages	Supplies and Other Expense	Salaries and Wages	Supplies and Other Expense
<b>Subtotals forwarded</b>	<b>\$ 6,485,848</b>	<b>\$ 6,690,215</b>	<b>\$ 6,151,482</b>	<b>\$ 6,245,378</b>
General services and administration:				
Food services	255,817	435,655	252,746	482,893
Operation of plant	253,152	680,670	248,108	604,378
Environmental and laundry	299,789	283,327	300,182	287,979
Finance and administration	1,680,247	1,576,546	1,607,400	1,302,473
Insurance and bonding	-	122,830	-	99,873
Loss on sale of equipment	-	29,005	-	15,751
	<b>2,489,005</b>	<b>3,128,033</b>	<b>2,408,436</b>	<b>2,793,347</b>
Interest and amortization	-	1,081,405	-	1,121,062
Depreciation	-	2,241,425	-	2,174,242
	<b>\$ 8,974,853</b>	<b>\$ 13,141,078</b>	<b>\$ 8,559,918</b>	<b>\$ 12,334,029</b>

Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center

Nonoperating Revenue and Expenses from Rental Activities  
Years Ended June 30, 2004 and 2003

	2004	2003
Rental revenue:		
Office space	\$ 426,841	\$ 425,019
Telephone equipment	49,131	48,865
<b>Total rental revenue</b>	<b>475,972</b>	<b>473,884</b>
Rental expenses:		
Telephone and utilities	105,751	124,854
Building and property taxes	12,102	8,444
Other	1,016	1,145
Depreciation	267,367	270,463
<b>Total rental expenses</b>	<b>386,236</b>	<b>404,906</b>
	<b>89,736</b>	<b>68,978</b>
Financial revenue (expense), interest earnings	<b>10,006</b>	<b>9,675</b>
<b>Rental activities, net</b>	<b>\$ 99,742</b>	<b>\$ 78,653</b>



# McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report  
on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of the Financial Statements Performed in  
Accordance with Government Auditing Standards**

To the Board of Trustees  
Henry County Health Center  
d/b/a Henry County Health Center  
Mt. Pleasant, Iowa

We have audited the financial statements of Henry County Soldiers' and Sailors' Memorial Hospital, d/b/a Henry County Health Center (Hospital), as of and for the year ended June 30, 2004, and have issued our report thereon dated July 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## **Compliance**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that were required to be reported under *Government Auditing Standards*.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 04-II-A.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described at 04-II-A is a material weakness.

This report is intended solely for the information and use of Henry County Health Center and the Office of the Auditor of State, State of Iowa and is not intended and should not be used by anyone other than those specified parties.

*McGladrey & Pullen, LLP*

Burlington, Iowa  
July 26, 2004

Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2004

---

**Part I: Summary of Independent Auditor's Results:**

- (a) An unqualified opinion was issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was identified.
- (c) The audit did not disclose any noncompliance, which is material to the financial statements.

**Part II: Findings Related to the Financial Statement Audit as Required to be Reported in Accordance with Government Auditing Standards:**

**Reportable Condition:**

**04-II-A**

Finding: A fully developed system of internal accounting control includes a segregation of duties so that no one individual handles a transaction from inception to completion.

Condition: One important aspect of a system of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. A limited number of people perform most of the accounting and data processing control duties. As a result, some of the elements of internal control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital.

Recommendation: We recommend the Hospital look for ways to reassign or realign duties where practical. With the limited number of employees that can be assigned, we believe that it is important for management to have continuing close oversight supervision over the operations of the Hospital.

Response and Corrective Action Plan: We will continue to provide close management oversight of the accounting and data processing operations of the Hospital.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2004**

---

**Part III: Other Findings Related to Required Statutory Reporting:**

- 04-III-A Official Depositories - A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- 04-III-B Certified Budget - Hospital disbursements during the year ended June 30, 2004 did not exceed amounts budgeted.
- 04-III-C Questionable Expenditures - We noted no expenditures within the scope of our audit that do not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.
- 04-III-D Travel Expense - No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- 04-III-E Business Transactions with Hospital Officials and Employees - No business transactions with Hospital officials or employees were noted.
- 04-III-F Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 04-III-G Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy during the year ended June 30, 2004.
- 04-III-H Publication of Bills Allowed and Salaries - The Hospital published the schedule of bills allowed and salaries by job classification in accordance with Chapter 347.13(15) of the Code of Iowa and a Supreme Court decision dated September 18, 1996.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Summary Schedule of Prior Year Audit Findings  
Year Ended June 30, 2004**

Finding		Status	Corrective Action Plan or Other Explanation
03-II-A	Segregation of duties in the accounting and data processing areas.		Unresolved, similar finding reported at 04-II-A.
03-II-B	The Hospital did not provide public notice on the sale of a parcel of real estate.		Corrective action taken.

**Henry County Soldiers' and Sailors'  
Memorial Hospital  
d/b/a Henry County Health Center**

**Corrective Action Plan  
Year Ended June 30, 2004**

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
<b>Reportable conditions in internal control:</b>				
04-II-A	Segregation of duties in the accounting and data processing areas.	See response and corrective action planned at 04-II-A.	Ongoing	David Muhs